

Forgiveness Calculations for the Paycheck Protection Program Loan

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Disclaimer

THIS DOCUMENT IS A HIGH-LEVEL SUMMARY AND DISCUSSION OF PARTS OF THE PAYCHECK PROTECTION PROGRAM OF THE CARES ACT, THE PAYCHECK PROTECTION FLEXIBILITY ACT AND RELATED REGULATIONS AND GUIDANCE OF BOTH.

LOAN FORGIVENESS APPLICATIONS WILL BE MADE TO YOUR LENDER WHO HAS AUTHORITY TO ADMINISTER THE PPP. IT WILL BE IMPORTANT TO COORDINATE LOAN FORGIVENESS CALCULATIONS WITH YOUR LENDER.

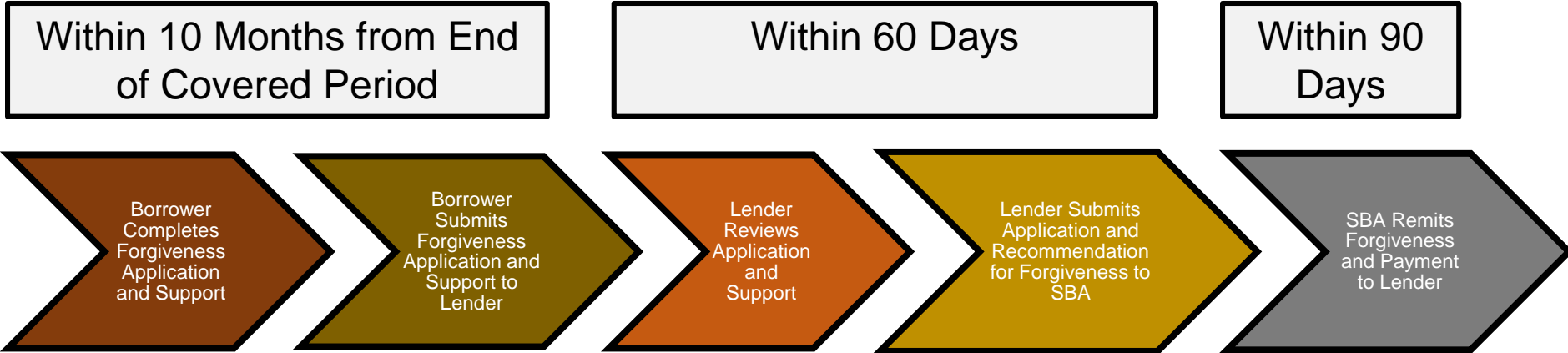
SBA AND TREASURY CONTINUE TO ISSUE REGULATIONS AND GUIDANCE RELATED TO THE PAYCHECK PROTECTION PROGRAM.

THIS DOCUMENT SHOULD NOT BE USED AS A BASIS TO MAKE ANY DECISIONS OR TAKE ANY ACTIONS RELATED TO A PPP LOAN, GOOD FAITH CERTIFICATIONS OR LOAN FORGIVENESS. BORROWERS SHOULD CONSULT THEIR BANK AND THEIR OWN ADVISORS BEFORE MAKING ANY DECISIONS OR TAKING ANY ACTIONS RELATED TO THESE MATTERS.

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Overview of the Forgiveness Application Process



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Overview of Loan Forgiveness Application

Expenses

- Payroll and Related Costs (line 1)
- Non-payroll related Costs (lines 2 - 4)

Reductions

- Salary/Wage Test Reduction (line 5)
- FTE Reduction Quotient (line 7)
- Modified Total Expenses (line 8 = sum of lines 1-5 x line 7)

Smallest of the following

- Modified Total Expenses (line 8)
- PPP Loan Amount (line 9)
- Payroll and related costs divided by 60% (line 10)

8 Weeks or 24 Weeks Covered Period

- #1 questions coming from business – which is better?
- Concern that 24 weeks may result in a worse answer
- Need to model out to determine best result
- Key assumptions include:
 - Actual covered expenses incurred to date
 - Expected covered expenses
 - Estimate of Salary/Wage Reduction, if any
 - Estimate of FTE Quotient Reduction, if any



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Example #1 – 8 Week, No Reduction, All Spent, 70/30

Payroll Expenses	700,000	70%
Non-PR Expenses	300,000	30%
Salary Reduction Test	-	

Total Costs	1,000,000	(a)
FTE Quotient	100%	(b)

Modified Total (a x b)

PPP Loan

Payroll Costs Divided by 60%

1,000,000
1,000,000
1,166,667

Loan Forgiveness

1,000,000

Smallest



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Example #2 – 8 Week, No Reduction, All Spent, 60/40

Payroll Expenses	600,000	60%
Non-PR Expenses	400,000	40%
Salary Reduction Test	-	
<hr/>		
Total Costs	1,000,000	(a)
FTE Quotient	100%	(b)
<hr/>		

Modified Total (a x b)
 PPP Loan
 Payroll Costs Divided by 60%

Loan Forgiveness

1,000,000
1,000,000
1,000,000

1,000,000

Smallest



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Example #3 – 8 Week, No Reduction, All Spent, 50/50

Payroll Expenses	500,000	50%
Non-PR Expenses	500,000	50%
Salary Reduction Test	-	

Total Costs	1,000,000	(a)
FTE Quotient	100%	(b)

Modified Total (a x b)
 PPP Loan
 Payroll Costs Divided by 60%

1,000,000
1,000,000
833,333

Loan Forgiveness

833,333

Smallest



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Example #4 – 8 Week, No Reduction, Most Spent

Payroll Expenses	600,000	67%
Non-PR Expenses	300,000	33%
Salary Reduction Test	-	
<hr/>		
Total Costs	900,000	(a)
FTE Quotient	100%	(b)
<hr/>		

Modified Total (a x b)

PPP Loan

Payroll Costs Divided by 60%

900,000
1,000,000
1,000,000

Loan Forgiveness

900,000

Smallest



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Example #5 – 24 Week, No Reduction, All Spent

Payroll Expenses	1,600,000	67%
Non-PR Expenses	800,000	33%
Salary Reduction Test	-	

Total Costs	2,400,000	(a)
FTE Quotient	100%	(b)

Modified Total (a x b)
 PPP Loan
 Payroll Costs Divided by 60%

2,400,000
1,000,000
2,666,667

Smallest

Loan Forgiveness

1,000,000



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Example #6 – 24 Week, FTE Reduction, All Spent

Payroll Expenses	1,600,000	67%
Non-PR Expenses	800,000	33%
Salary Reduction Test	-	
<hr/>		
Total Costs	2,400,000	(a)
FTE Quotient	80%	(b)
<hr/>		

Modified Total (a x b)
 PPP Loan
 Payroll Costs Divided by 60%

1,920,000
1,000,000
2,666,667

Loan Forgiveness

1,000,000

Smallest



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Overview of Loan Forgiveness Application

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Smallest of the following

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- Payroll and related costs divided by 60% (line 10)

Covered Period

- Two options – for payroll related costs only:
 - Covered Period: 8 or 24 weeks after receiving PPP funds
 - Alternative Payroll Covered Period: 8 or 24 weeks beginning the first day of the first pay period following the PPP loan disbursement
- Non-payroll costs must be for Covered Period Only
- PPP loans issued before June 5th have the option to use 8 weeks
- What if a business has two different payroll cycles?
 - E.g. – hourly and salary
 - Alternative Payroll Covered Period starts when the next payroll cycle starts... the sooner of the two cycles



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Covered Expenses

- Eligible Payroll Costs
 - Consist of salary, wages, commissions, or similar compensation; payment for vacation, parental, family, medical or sick leave; allowance for separation or dismissal
 - Payment for employee benefits consisting of group health care coverage, including insurance premiums, and retirement; payment of state and local taxes assessed on compensation of employees
 - Exclude compensation of an employee whose principal place of residence is outside of the United States, compensation of an individual employee in excess of an annual salary of \$100,000, prorated as necessary; qualified sick and family leave wages for which a credit is allowed under FFCRA
 - Payroll costs must be paid or incurred during the Covered Period. Payroll costs incurred but not paid during the Covered Period are eligible for forgiveness if paid on or before the next regular payroll date.



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Covered Expenses (*continued*)

- Eligible Nonpayroll Costs
 - Payments of mortgage interest on any business mortgage obligation. A business mortgage obligation is a liability of the borrower on **real or personal property** that was incurred before February 15, 2020
 - Business rent or lease payments pursuant to lease agreement for **real or personal property** in force before February 15, 2020
 - Business payments for a service for the distribution of electricity, gas, water, telephone, transportation, or internet access for which service began before February 15, 2020
 - Note: Transportation costs is believed to include fuel used in driving your business vehicle
 - Nonpayroll costs must be **paid** during the Covered Period **or incurred** during the Covered Period and paid on or before the next regular billing date, even if the billing dates is after the Covered Period



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Payroll Cost Limitations

Health Insurance

- Include **employer** contributions for employee health insurance, including contributions to self-insured, employer-sponsored group health plan
- Exclude employee contributions
- Exclude health insurance paid on behalf of self-employed individuals, general partners, or owner-employees of S-Corporations

Retirement Contributions

- Include **employer** contributions to employee retirement plans
- Exclude employee contributions
- Exclude contributions made on behalf of self-employed individuals or general partners



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Other Owner Limitations

Compensation Limits – 24 Week Covered Period

- Capped at the lesser of \$20,833 **OR** the 2.5 month equivalent of 2019 compensation

Compensation Limits – 8 Week Covered Period

- Capped at the lesser of \$15,385 **OR** the 8 week equivalent of 2019 compensation

Who is Considered an Owner?

- Only definition referenced can be found in the PPP Application, which considers owners as follows:
 - For a *sole proprietorship*, the sole proprietor
 - For a *partnership*, all general partners and all limited partners owning 20% or more
 - For a *corporation*, all owners of 20% or more
 - For *limited liability companies*, all members owning 20% or more
 - Any Trustor, if the Applicant is *owned by a trust*



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Paid vs Incurred – Eligible Payroll Costs

Paid

- Payroll costs ***paid*** during the Covered Period or Alternative Covered Payroll Covered Period
- Considered ***paid*** on day that paychecks are distributed
- Considered ***paid*** when ACH credit transaction is initiated

Incurred

- Must be ***incurred during*** Covered Period or Alternative Covered Period
- Considered incurred on the day that the employee's pay is earned
- Must be paid ***on or before*** next regular payroll date to be eligible

Paid vs Incurred – Eligible Nonpayroll Costs

Paid

- Costs ***paid*** during the Covered Period only

Incurred

- Must be ***incurred during*** Covered Period only
- Must be paid ***on or before*** next regular billing date to be eligible

Other

- Nonpayroll costs cannot exceed 40% of the total forgiveness amount
- Principal payments of a mortgage obligation are NOT eligible
- Prepayments of mortgage interest are NOT eligible

Nonpayroll Example: Loan Date April 20th



Service Period	Pay Date	Covered Period
		April 20 - June 14

 March 1 - March 31	April 10	Exclude
 April 1 - April 30	May 11	Paid
 May 1 - May 31	June 10	Paid
 June 1 - June 30	July 10	Accrue - 47%
 July 1 - July 31	August 10	Exclude

Effective Weeks 10.7



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Smallest of the following

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Line 5 – Total Salary/Hourly Wage Reduction

Applicable To Employees That....

- Were employed at any point during Covered Period or Alternate Covered Period
- Whose principal place of residence is in the United States
- Received compensation at an annualized rate of less than \$100,000 for all pay periods **in 2019**
- Were not employed at any point in 2019

What Information is Needed:

- Average annual salary or hourly wage during Covered or Alternative Period
- Average annual salary or hourly wage between January 1 – March 31, 2020

Other Items Worth Noting:

- Based on hourly rates or annual salary – not hours worked



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Salary/Hourly Wage Reduction Examples

SALARY EMPLOYEES										
		STEP 1 - Determine if pay was reduced more than 25%				STEP 2 is to determine if the Salary/Hourly Wage Reduction Safe Harbor is met	STEP 3 - Determine Salary Wage Reduction			
		Step 1a.	Step 1b.	Step 1c.			Step 3a.	Step 3b.		
Employee Name	Employee Identifier	Average Annual Salary Covered Period	Average Annual Salary 1/1/20 - 3/31/20	Wage %			Multiply Step 1b. by .75	Subtract 1a. From 3a.		
Clark, Vanessa	***-**-1010	\$ 52,000.00	\$ 65,000.00	80.0%		-	\$ -	\$ -		
Johnson, Susan	***-**-1925	\$ 57,000.00	\$ 57,000.00	100.0%		-	\$ -	\$ -		
Jones, Ryan	***-**-2734	\$ 40,000.00	\$ 58,000.00	69.0%		STEP 2	\$ 43,500.00	\$ (3,500.00)		
Lannister, James	***-**-4192	\$ 53,000.00	\$ 52,000.00	102.0%		-	\$ -	\$ -		
Total Salary Wage Reduction							\$ (3,500.00)			

HOURLY EMPLOYEES											
		STEP 1 - Determine if pay was reduced more than 25%				STEP 2 is to determine if the Salary/Hourly Wage Reduction Safe Harbor is met	STEP 3 - Determine the Hourly Wage Reduction				
		Step 1a.	Step 1b.	Step 1c.			Step 3a.	Step 3b.	Step 3c.		Step 3d.
Employee Name	Employee Identifier	Average Hourly Rate Covered Period	Average Hourly Rate 1/1/20 - 3/31/20	Wage %			Multiply Step 1b. by .75	Subtract 1a. From 3a.	Average Weekly Hours Worked 1/1/20 - 3/31/20	Covered Period Weeks 8 or 24	Multiply 3b. By 3c. Then Multiply By Covered Period Weeks
Claus, Nicolas	***-**-3344	\$ 12.25	\$ 12.25	100.0%		-	-	30.0	8	\$ -	
McDonald, Ronald	***-**-5566	\$ 7.50	\$ 11.50	65.0%		STEP 2	8.63	(1.13)	35.0	8 \$ (315.00)	
Thomas, Wendy	***-**-7788	\$ 11.00	\$ 12.50	88.0%		-	-	40.0	8	\$ -	
Worthy, Janet	***-**-9900	\$ 14.25	\$ 13.25	108.0%		-	-	45.0	8	\$ -	
Total Hourly Wage Reduction							\$ (315.00)				

Line 5. Total Salary/Hourly Wage Reduction = (\$3,815)



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Salary/Hourly Wage Reduction – Safe Harbor

- Applies **ONLY** if the salary/wage reduction occurred between 2/15/2020 and 4/26/2020
 - *After COVID-19 outbreak in United States*
 - *Before Paycheck Protection Program was available*
- Have until **earlier** of Forgiveness Application submission **OR** December 31, 2020 to restore wage levels
- Calculated on a per employee basis

SALARY/HOURLY WAGE REDUCTION SAFE HARBOR						
Employee Name	Employee Identifier	Step 2a. Annual Salary or Hourly Wage as of 2/15/20	Step 2b. Average Annual Salary or Hourly Wage 2/15/20 - 4/26/20	2b. > 2a. - Step 3 2b. = 2a. - Step 3 2b.< 2a - go to 2c.	Step 2c. Average Annual Salary or Hourly Wage 12/31/20 or Application	2c. > 2a. - Safe Harbor 2c. = 2a. - Safe Harbor 2c.< 2a. - Step 3
Clark, Vanessa	***-**_1010	\$ 65,000.00	\$ 52,000.00	2c.	\$ 62,000.00	Step 3
Johnson, Susan	***-**_1925	\$ 57,000.00	\$ 57,000.00	Step 3	\$ 57,000.00	Safe Harbor
Jones, Ryan	***-**_2734	\$ 58,000.00	\$ 40,000.00	2c.	\$ 40,000.00	Step 3
Lannister, James	***-**_4192	\$ 52,000.00	\$ 53,000.00	Step 3	\$ 53,000.00	Safe Harbor
Claus, Nicolas	***-**_3344	\$ 12.25	\$ 12.25	Step 3	\$ 12.25	Safe Harbor
McDonald, Ronald	***-**_5566	\$ 11.50	\$ 7.50	2c.	\$ 8.50	Step 3
Thomas, Wendy	***-**_7788	\$ 12.50	\$ 11.00	2c.	\$ 11.50	Step 3
Worthy, Janet	***-**_9900	\$ 13.25	\$ 14.25	Step 3	\$ 14.25	Safe Harbor

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What is considered a Full-Time Equivalent (FTE)?

- Average FTE:
 - For each employee, the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is capped at 1.0.
 - **Not based on 30 hours**
- Simplified Method (at the election of the borrower):
 - 1.0 for employees who work 40 hours or more per week
 - 0.5 for employees who work fewer than 40 hours



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FTE Reduction Test

- The amount eligible for forgiveness shall be reduced proportionally by a reduction in the number of FTEs
- FTE reduction is based on comparing:
 - a) Base Period Average FTEs:
 - 2/15/2019 – 6/30/2019, or
 - 1/1/2020 – 2/29/2020
 - b) Average FTEs during Covered or Alternate Period
- The Loan Forgiveness will be reduced if (a) is greater than (b)
- Except if FTE Reduction Safe Harbor applies



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FTE Reduction Test Examples

	<u>8 Week</u>		<u>24 Week</u>	
Reference periods:				
2/15/2019 6/30/2019	95	95	95	95
1/1/2020 2/29/2020	100	100	100	100
Covered periods:				
4/27/2020 6/21/2020 (8 week)	80		100	
4/27/2020 10/11/2020 (24 week)		90		80
Total Covered Expenses	\$ 1,000,000	\$2,000,000	\$1,000,000	\$2,000,000
FTE Quotient	0.84	0.95	1.00	0.84
Modified Total	\$ 842,105	\$1,894,737	\$1,000,000	\$1,684,211
PPP Loan	\$ 1,200,000	\$1,200,000	\$1,200,000	\$1,200,000
PPP Loan Forgiveness	\$ 842,105	\$1,200,000	\$1,000,000	\$1,200,000

FTE Reduction Test – Safe Harbor #1

- If you were unable to operate between 2/15/2020 and the end of the covered period at the same level of business activity as before 2/15/2020 due to compliance with requirements established or guidance issued between 3/1/2020 and 12/31/2020, by the Secretary of Health Services, the Director of the Centers for Disease Control and Prevention, or OSHA.
- The above statutory exemption includes both direct and indirect compliance with COVID Requirements or Guidance, because a significant amount of the reduction in business activity stemming from COVID Requirements or Guidance is the result of state and local government shutdown order.



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FTE Reduction Test – Safe Harbor #2

- Safe Harbor only applies if the FTE reduction occurred between 2/15/2020 and 4/26/2020
- A Company meets the FTE Safe Harbor if the borrower has eliminated a reduction no later than 12/31/2020
- Instructions provide detailed steps on how to calculate
- Summary: FTEs no later than 12/31/2020 is equal to or greater FTEs in the pay period inclusive of 2/15/2020
- Still need to incur payroll expenses in order to have amounts eligible for forgiveness



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FTE Reduction Test Safe Harbor Examples

	<u>8 Week</u>	<u>24 Week</u>	<u>8 Week</u>	<u>24 Week</u>
Reference period:	95	95	95	95
Covered periods:				
4/27/2020 6/21/2020 (8 week)	80		80	
4/27/2020 10/11/2020 (24 week)		90		90
Safe Harbor:				
2/15/2020 2/15/2020	100	100	100	100
2/15/2020 4/26/2020	100	100	80	80
FTEs at earlier of 12/31/2020 or date of application submission	95	98	100	100
Safe Harbor Eligible?	NO	NO	YES	YES
FTE Quotient	0.84	0.95	1.00	1.00

FTE Reduction Test Exceptions

- The following FTEs do not reduce the borrower's loan forgiveness, if occurring during the covered period:
 - Positions which the borrower made a good-faith, written offer to rehire and it was rejected
 - Employees fired for cause
 - Voluntarily resigned or requested and received reduced hours
 - Adjustment for not finding qualified employees
- None of these situations apply if the position was filled by a new employee



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Forgiveness Application - Form 3508EZ

Who Can Use the EZ Form

- ❑ Self-Employed Individual, Independent Contractor or Sole Proprietor **with no employees** at time of PPP loan application, or a
- ❑ Borrower with no reduction of salary or hourly wages by more than 25% during Covered Period (or Alternative Payroll Covered Period) compared to 1st quarter of 2020

AND

- Borrower did not reduce number or employees or average hours paid from January 1, 2020 to end of Covered Period

OR

- Borrower was unable to operate during Covered Period at same level of business as before February 15, 2020 due to compliance with requirements established* between March 1 – December 31, 2020

*by Secretary of Health and Human Services, CDC or OSHA

Forgiveness Application - Form 3508EZ

What is Different About It

- Calculates loan forgiveness based on costs incurred and paid
- No calculations for salary reductions or FTE tests
- Less supporting documentation to include with application
- 10 certifications instead of 8

What's the Catch

- Still need to evaluate salary reductions and FTE tests for certifications
- Must maintain documentation that supports the certifications

Filing for Forgiveness Dates

When Must a Borrower Apply for Loan Forgiveness

- Any time on or before the maturity date of the PPP loan
- Deferral of loan payments end at 10 months after the last day of the Covered Period
- Payments of principal and interest **must** begin after 10 months

Can a Borrower Apply Before the End of the 24 Week Covered Period

- Yes – but can only include expenses through application date
- Any Salary Reductions (in excess of 25%) are assumed to occur for the full 24 week period – must be extrapolated out
- Application does not address how to handle FTE Quotient (Reduction Test)
 - *Possibly use the FTE Quotient as of the date the application is filed*

Forgiveness Documentation

- ✓ Bank account statements – showing payroll disbursements
- ✓ Payroll service provider reports showing compensation paid
- ✓ Payroll tax filings, including Form 941 and unemployment insurance filings
- ✓ Payment receipts, cancelled checks, or account statements showing payments
- ✓ Documents verifying existence of nonpayroll obligations prior to February 15, 2020
- ✓ Copy of lender amortization schedule and receipts or cancelled checks
- ✓ Statements from February 2020 to one month after end of Covered Period
- ✓ Support for each employee for Salary/Wage reduction test
 - not required to be submitted
- ✓ Support for FTE Reference Period
- ✓ All documentation must to retained for six years.
 - submitted or not submitted



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Government Contractor Issues

- Frequently Asked Questions
https://www.acq.osd.mil/dpap/pacc/cc/docs/covid-19/FAQ_Implementation_Guidance_CARES_Act_Sec_3610_2020.04.24.pdf
- Contractors can seek reimbursement of COVID-19 related costs (no fee) within their contracts (Section 3610 of CARES Act). OTA's are eligible (Q3). FFP contracts, CLIN contracts, and commercial item contracts can be modified to pay such costs (Q13)
- Leave costs and other COVID-19 should be tracked separately (Q8/Q10)
- Speak with contracting officers to determine how costs should be treated.
- Q23: “to the extent that PPP credits are allocable to costs allowed under a contract, the Government should receive a credit or a reduction in billing for any PPP loans or loan payments that are forgiven. Furthermore, any reimbursements, tax credits, etc. from whatever source that contractors receive for any COVID-19 Paid Leave costs should be treated in a similar manner and disclosed to the government.



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Government Contractor Issues

- Billing can begin on cost plus contracts once CO transmits their written determination. For FFP contracts, a written modification is required (Q22).
- Appropriate documentation should be maintained for reimbursable costs (Q27).
- How to request reimbursement:
https://www.acq.osd.mil/dpap/policy/policyvault/Implementation_Guidance_CARES_3610_DPC.pdf
- Reimbursement still subject to availability of funds.



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Government Contractor Issues

- Class Deviation 2020-00013

https://www.acq.osd.mil/dpap/policy/policyvault/Class_Deviation_2020-00013.pdf

Don't double dip. If you are receiving reimbursement for PPP funds or other CARES Act reimbursements or state and local reimbursement, "the small business should not seek reimbursement for the payment from DoD using the provisions of section 3610" (of the CARES Act).

- "In addition, it is important that contracting officers secure representations from contractors regarding any other relief claimed or received stemming from COVID-19, including an affirmation that the contractor has not or will not pursue reimbursement for the same costs accounted for under their request, to support their requests for reimbursement under section 3610."

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Government Contractor Issues

- Important points to remember:
 - COMMUNICATE with your CO's.
 - DOCUMENT your costs.
 - Allocation of reimbursed costs must be 'reasonable and equitable'.
 - If in negotiation with a government contract, PPP funds should be disclosed.
 - Determining the year that the PPP funds could impact rates could be difficult (SBA has 5 months from receipt of application to approve application).
 - In addition, all contracts that absorb indirect costs may be impacted.
 - Inquire with subcontractors on their potential impact.



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How can we help you?

- Loan Forgiveness Application Reviews
- FTE Computations
- Salary Reduction Computations
- Loan Forgiveness Application Preparation
- Certification Documentation Consultation and Reviews
- Determine Impact on Indirect Cost Rates



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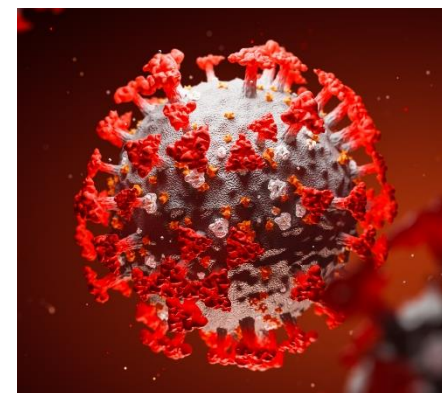


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COVID-19 Resource Center

In an effort to keep you updated on the evolving situation surrounding the COVID-19 pandemic, we have created a COVID-19 Resource Center to provide guidance during these unprecedented times. We will do our best to answer your questions and help you understand the potential impact on you and your business – from Paycheck Protection Program (PPP) loan forgiveness to CARES Act accounting information analysis.



[**VISIT THE RESOURCE CENTER**](#)

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***Thank you
for your participation!***

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